ORDER OF THE ADMINISTRATOR 2008-03

NATURAL GAS PRICING ORDER OF THE ADMINISTRATOR

PETROLEUM AND NATURAL GAS ROYALTY AND FREEHOLD PRODUCTION TAX REGULATION AND NET PROFIT ROYALTY REGULATION

I order as follows, Order 2001-02 is rescinded and replaced with this Order effective January 1, 2009.

Pursuant to subsection 2(5) of the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation and subsection 2(e) of the Net Profit Royalty Regulation, a producer price for marketable gas shall be calculated in accordance with the following rules:

A. Level of Aggregation:

On a monthly basis, a producer price shall be calculated for each producer that has a reporting interest in a net profit royalty well event(s), oil well event(s) or gas well event(s) that has produced natural gas that has been delivered to market, and the level of aggregation for determining the producer price(s) for such well events will be

a) the net profit royalty project (project) for the producer's reporting interest in any net profit royalty well events that are within the project.

b) the natural gas processing plant(s) for the producer's reporting interest in oil well event(s) or gas well event(s) that deliver natural gas to the natural gas processing plant.

c) the dry gas source(s) for the producer's reporting interest in oil well event(s) or gas well event(s) that deliver natural gas to the dry gas source(s).

B. Geographic Point of Valuation:

1) For natural gas produced from net profit royalty well event(s) that is delivered to market, the geographic point of valuation for determining a producer price shall be at the project ring fence of a project.

2) For natural gas produced from an oil well event(s) or a gas well event(s) that

a) requires processing and is delivered to a producer-owned natural gas processing plant (producer-owned plant), the producer price shall be determined at the inlet of the producer-owned plant.

b) requires processing and is delivered to a natural gas processing plant owned by a custom processor who is not a producer of natural gas that is delivered to the natural gas processing plant, the producer price shall be determined at the delivery point to the custom processor's gathering system.

c) does not require processing, the producer price shall be determined at the receipt point on the first third party marketable gas transmission line to which the marketable gas is delivered.

C. Method of Valuation:

1) Sales of natural gas when sold at arm's length shall, for the purpose of determining producer prices, be valued using the actual consideration received or receivable for the volume of marketable gas delivered. The actual consideration received or receivable shall include any demand or reservation fees, but shall exclude any marketing or administration fees and any gains or losses associated with hedging transactions.

2) Producer prices shall be equal to the volume weighted average of:

a) the net selling price of sales for the producer for which the title transfer point is downstream of the geographic point of valuation, and

b) the average price of sales for the producer for which the title transfer point is at the geographic point of valuation.

3) The net selling price of sales under 2(a) for a producer shall be equal to the consideration received or receivable for all arm's length sales made by the producer for which the title transfer point is downstream of the geographic point of valuation, divided by the volume of such sales, less per unit costs incurred by the producer to gather, process and transport the gas to the title transfer point from the geographic point of valuation.

4) Where natural gas is swapped for consideration which consists in whole or in part of natural gas at a different geographic location from that of the title transfer point and the natural gas volume is material to the determination of a producer price, the net selling price for the natural gas volume that is swapped is equal to the actual consideration received from the final sale of the swapped gas less per unit costs incurred by the producer to gather, process and transport the natural gas to the final title transfer point from the geographic point of valuation.

5) For the following dispositions of natural gas, the selling price shall be equal to the average price of all other sales for the producer in the region in which the disposition takes place.

a) Sales of natural gas made on a non-arm's length basis;

b) Sales of natural gas produced in British Columbia, for which the title transfer point is outside of British Columbia unless, in the opinion of the administrator, the natural gas was not commingled with natural gas produced outside of British Columbia;

c) Natural gas that is injected into a storage facility prior to being sold;

d) Natural gas that is deemed to be native gas produced from a storage facility pursuant to a royalty agreement relating to the deeming of native gas production from that facility;

e) Any other dispositions for which, in the opinion of the administrator, an arm's length price cannot be reasonably determined.

6) If the price defined in 3), 4) and 5) above cannot be calculated, or the volume of the natural gas for which these prices are to apply is, in aggregate, more than the volume of all other sales of British Columbia sourced natural gas for the producer, then, the administrator will determine a fair market value price for that volume of natural gas.

7) Where fuel is supplied by the producer for the purposes of delivering marketable gas to the buyer, without consideration, the volume of fuel supplied shall be included in the volume delivered to determine the per unit sales price. Where consideration is received from the buyer for the fuel, both the consideration and volume of fuel shall be added to the consideration received or receivable and volume of marketable gas delivered in determining the per unit selling price.

8) To determine a producer price at a geographic point of valuation for oil well events and gas well events under B. 2), the following per unit costs may be deducted from the consideration received or receivable:

a) arm's length per unit charges for transportation of marketable gas on a marketable gas transmission system,

b) arm's length gathering per unit charges where the natural gas has been delivered to a natural gas processing plant through a gathering line owned by a third party who is not a producer of natural gas at the natural gas processing plant in which the natural gas is processed,

c) arm's length processing per unit charges where the natural gas has been delivered to a natural gas processing plant or a portion of a natural gas processing plant owned by a third party who is not a producer of natural gas at the plant in which the natural gas is processed,

d) a per unit gas cost allowance rate for a producer-owned plant or producer-owned sales line where the natural gas has been:

(i) processed at a producer-owned plant or a portion of a producer-owned plant, or

(ii) transported on a producer-owned sales line.

9) To determine a producer price at a geographic point of valuation for net profit well events under B. 1), the following per unit costs, if applicable to infrastructure located outside a net profit royalty project ring fence, may be deducted from the consideration received or receivable:

a) arm's length per unit charges for transportation of marketable gas on a marketable gas transmission system calculated for each service zone,

b) arm's length gathering per unit charges where the natural gas has been delivered to a natural gas processing plant through a gathering line owned by a third party who is not a producer of natural gas at the natural gas processing plant in which the natural gas is processed,

c) arm's length processing per unit charges where the natural gas has been delivered to a natural gas processing plant or a portion of a natural gas processing plant owned by a third party who is not a producer of natural gas at the plant in which the natural gas is processed,

d) a per unit gas cost allowance rate for a producer-owned gathering system, producer-owned plant or producer-owned sales line where the natural gas has been gathered, processed or transported at or on a producer-owned gathering system, producer-owned plant or producer-owned sales line.

10) The total cost of service under 8 (a), (b) and (c) and 9(a), (b) and (c) shall be reduced by any cost recoveries relating to service for which eligible costs have been deducted.

11) The per unit gas cost allowance rate under 8(d) and 9(d) is calculated using the following formula:

$$\frac{\textbf{GCA Rate x Raw Gas Delivered Volume}}{\textbf{Allocated Marketable Gas Volume}}$$

Where:

a) GCA Rate is the approved gas cost allowance rate for the producer-owned gathering system, producer-owned plant or producer-owned sales line calculated in accordance with Gas Cost Allowance Rate Orders of the Administrator 2008-5 and 2008-6.
b) Raw Gas Delivered Volume is the producer's share of raw gas delivered to a producer-owned gathering system, producer-owned plant or producer owned sales line.
c) Allocated Marketable Gas Volume is the producer's share of marketable gas recovered from the Raw Gas Delivered Volume under b) above.

D. General:

1) Individual sales prices and costs shall be calculated in Canadian dollars per gigajoule.

2) Producer prices shall be calculated in Canadian dollars per thousand cubic metres.

3) The following conversion factors or methods shall be used:

Conversion	**Factor/Method**
$Canadian to $US Rate	Monthly Average Bank of Canada Daily Noon
ft^3 to m^3	1 ft^3 = 0.02832784 m^3 (at 101.325 kPa 15° C)
MMBtu to GJ	1 MMBtu = 1.055056 GJ
$/GJ to $/$10^3 m^3$	$/GJ times average GJ/$10^3 m^3$ for producer's production at a net profit royalty project, dry gas source or natural gas processing plant for the month

4) Revisions to revenues, costs or volumes used to calculate a producer price for a month which are a result of retroactive adjustments to invoices may be rolled into the calculation of the producer price for a subsequent month, provided that the roll-in does not materially impact the determination of a producer price. Any excess amount may be carried forward and rolled into future months until the excess amount is fully allocated.

5) This order remains in effect until cancelled or amended by Order of the Administrator.

Original signed by
Gordon Goodman

Royalty Administrator

Dated at Victoria, British Columbia
this 26th day of December